

Moscow Financial Weekly

For the week ending May 31, 2002
Treasury Attache's office, US Embassy Moscow

Highlights

- Terms for VTB sales decided
- Export repatriation rules challenged in court

Key Economic Indicators

Indicators	Level	% chg 1 week	% chg since Jan. 1
Ruble/\$ (MICEX) UTS	R31.3058	0.07	3.88
Monetary Base*	R746.1 bln	0.54	5.31**
CPI	NA	NA	6.6
International Reserves*	\$41.7 bln	2.70	14.25
RTS Index (end of week)	391.26	-2.89	50.46
Refinancing rate	23	0	4

*For week prior

** % chg from the abnormally high seasonal level at the end of the year.

Economic Developments

President Putin set out his priorities for the **budget** in a speech to Duma members. While the speech was vague in some areas, it signaled the continuation of exiting tight fiscal policy based on conservative forecasts and increasingly strict expenditure control. The budget will target a surplus under moderate oil price assumptions, providing plenty of flexibility to deal with financing external debt expenditures. A draft of the budget itself will be considered by the GOR in mid-June.

The **Customs** Committee reported higher-than-planned collections in May - R42.54 billion were transferred to the federal budget, 4.99% higher than targeted. Since the beginning of the year, the Committee transferred R214.71 billion to the budget - 1.26% higher than planned.

The Finance Ministry announced its intent to issue **new bonds** aimed at private individuals. The draft decision should be ready by September-October of this year and the bonds might be issued at the end of the year. The volume of borrowing would start out small, R1-2 billion with maturity of 10 years.

Banking sector

The sum of **household deposits**, both on ruble and foreign currency accounts, in Russian banks amounted to R784.2 billion as of April 1, 2002, having increased by 11.6% since the beginning of the year and by 55.1% - since April 1, 2001. The share of Sberbank in

the total for household bank deposits declined to 70.1% compared with 71.4% at the beginning of the year and 75.2% as of April 1, 2001.

On May 30th the panel of appeals of the Supreme Court reconfirmed an earlier court ruling invalidating mandatory sales of a portion of **export revenues** at the exchanges designated by the CBR (in fact, the MICEX). If enforced, the ruling would remove an important point of leverage the CBR uses to control the exchange rate, one that, even under the new team, is does not want to give up. CBR's representative in the hearings argued that by law the President of Russia determines the regime for export revenues sales and the President delegated this authority to the CBR. The CBR is not likely to give up yet, but the only venue left for the CBR to challenge the latest ruling is the Constitutional Court.

Amendments to the **law on the CBR** passed in the 3rd reading on June 5th. The GOR has threatened to recommend a veto because of a provision that would limit the CBR's inspection prerogatives.

Though yet to be officially announced, it appears that the GOR has given approval to the terms for purchasing CBR's 99% stake in **Vneshtorgbank** (VTB). MinFin apparently will issue R39B of new 10-year bonds with a 6% coupon. Without any tradable government debt of comparable term, it is difficult to determine the market value of these bonds. However the longest existing OFZ, maturing in 2005, yields 16.5%, indicating the government's discount is substantial. The bonds may include a novel feature that will allow the CBR to redeem them early by the amount of additional profits the CBR remits to the GOR above the amount budgeted. How's that for incentive.

Meanwhile Vnesheconombank (VEB) sources confirm that Andrei Kostin will become the head of VTB, ousting Yuri Ponomarev. This tends to confirm that these banks will in fact be merged following the purchase of VTB by the government. This is a victory for Kostin who had been having trouble with his earlier efforts to privatize the commercial part of VEB. Ponomarev may have suffered from too close of an association with prior CBR leadership.

The Council of the **Association of Russian Banks** (ARB) relieved Sergey Yegorov of the post of the President and appointed 1-st executive VP Garegin Tosunian to be Acting ARB President. An extraordinary ARB meeting is to elect a new President on June 18 and most likely it will be Tosunian since the general meeting of the Association has so far always been supportive of all the decisions of its Council.

The GOR announced its decision to submit to the State Duma a bill abolishing from the start of the next year the **tax on purchases of cash foreign currency**.

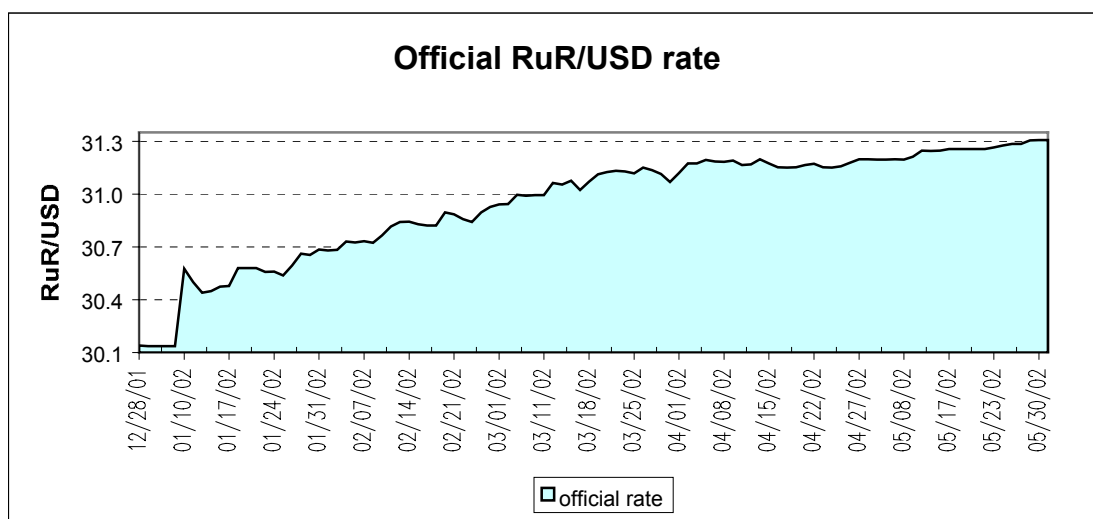
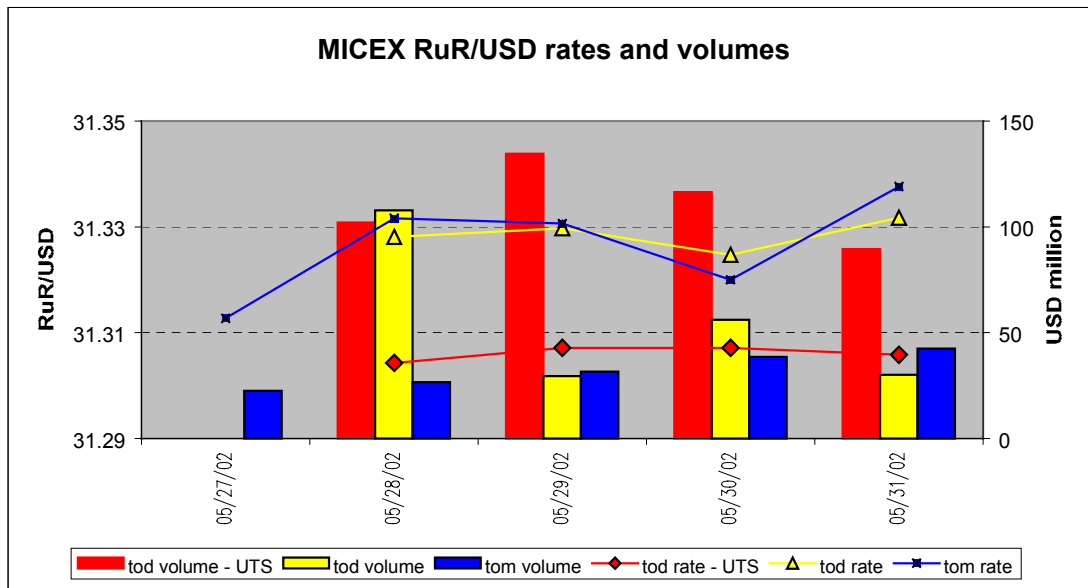
Financial markets

Forex Market

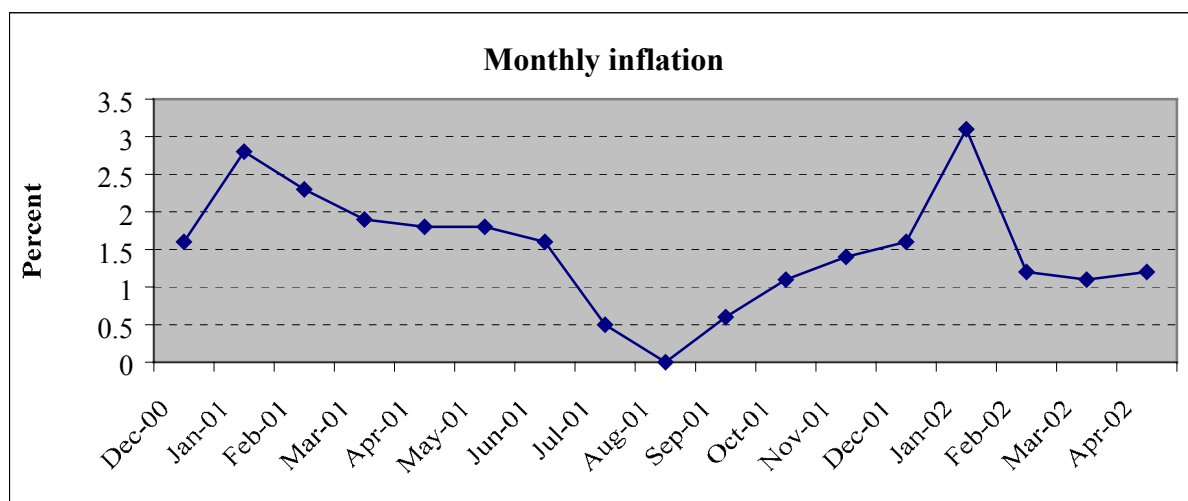
The forex market remained dull, with exchange rate stability being maintained through CBR's purchases of foreign currency. On Thursday, after it was announced that in the

week from May 18 through May 24 foreign reserves went up by \$1.1 billion, indicating a huge inflow of "oil" dollars, the ruble slightly firmed against the dollar in the MICEX afternoon trading, where the CBR traditionally is not present. However, on Friday afternoon the ruble weakened again.

For the week the ruble weakened 0.07% in nominal terms, closing in the UTS on Friday at R31.3058/\$. MICEX weekly trade volumes were \$442.55 million, \$223.26 million and \$161.36 million for the morning (UTS), afternoon "tod" and "tom" sessions, respectively.

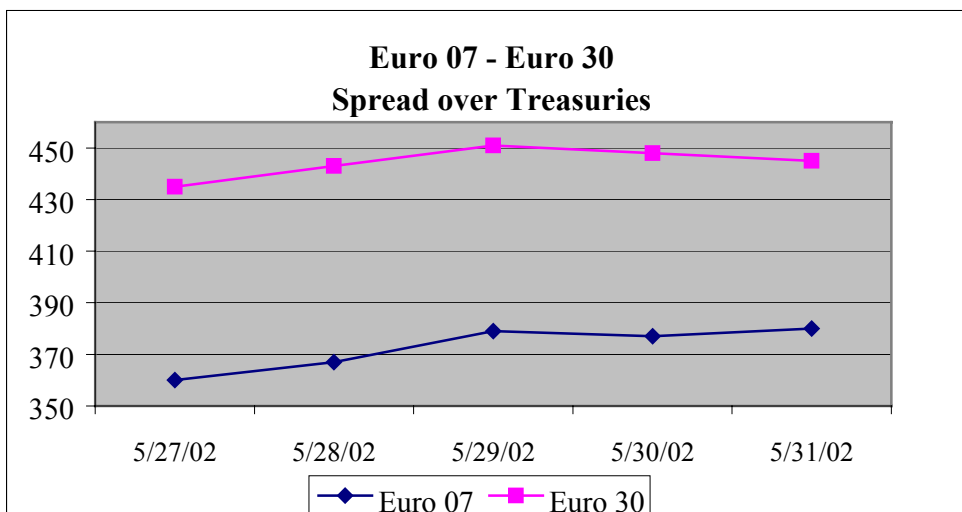


Prices



Eurobonds

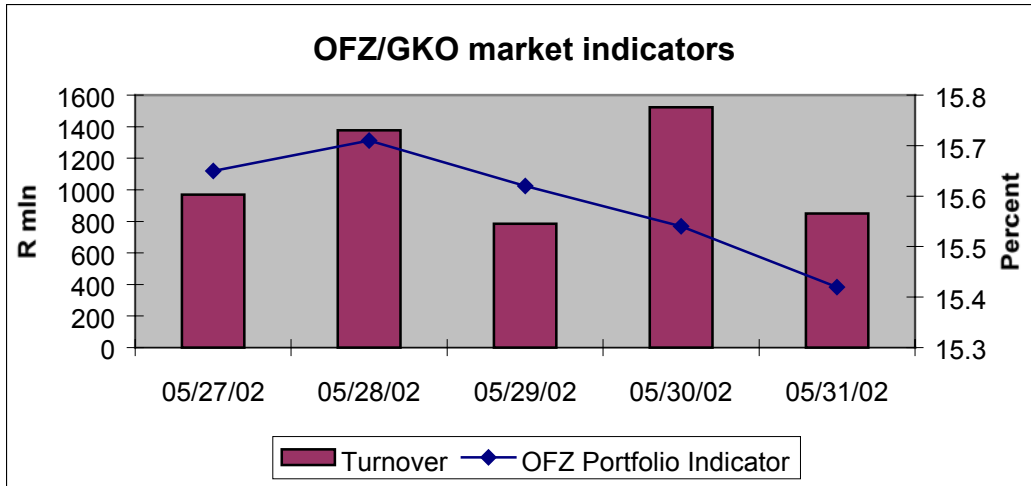
Prices on the Russian sector of the Eurobonds market fluctuated without any clear-cut trend last week. Good news about the sharp growth of the international reserves and favorable situation with world oil prices were negated by the Fitch agency comments about the uncertainty in the intent of Russia to service the Paris Club debt correctly. As a result of such neutral news background, the market was mostly consolidating on the levels achieved the week before.



Interest/Bond Market

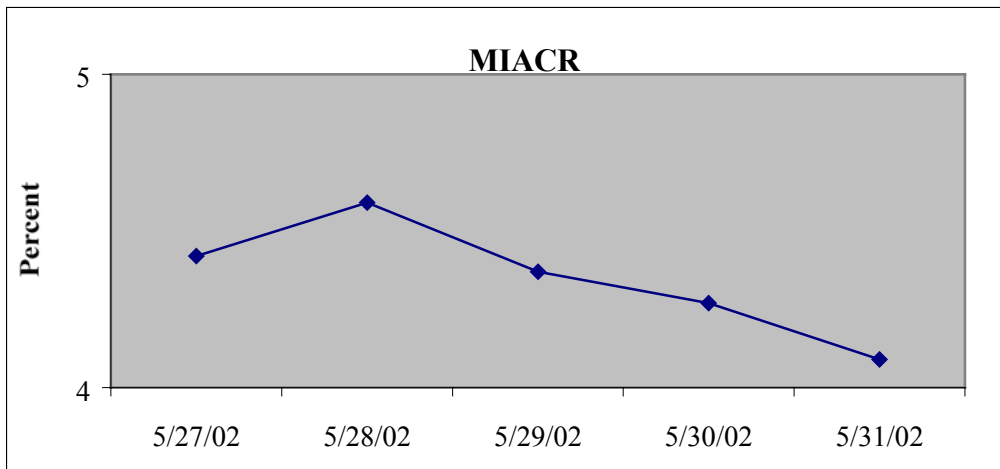
Bonds/Bills

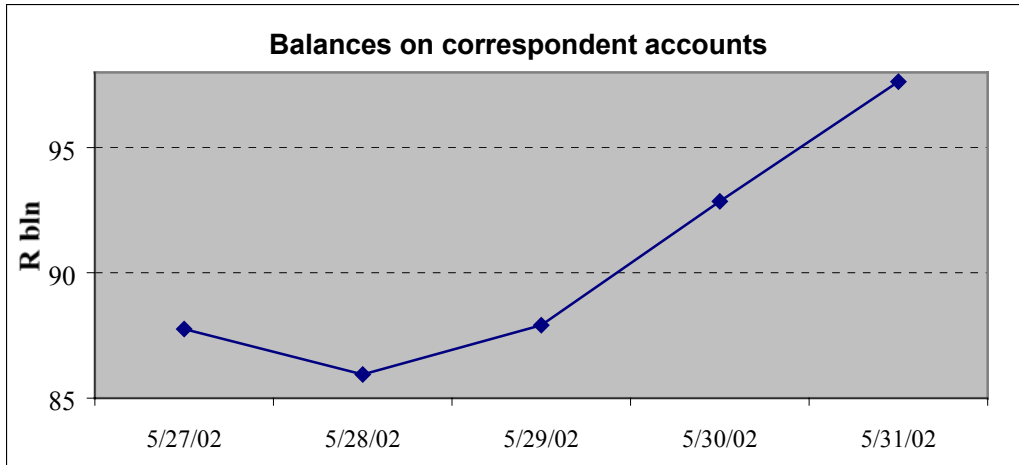
Prices rose on the secondary OFZ/GKO market with demand mostly concentrated in the longer-term sector which the Finance Ministry satisfied by issuing additional OFZs. Trade volumes were above average throughout the week.



Overnight rates

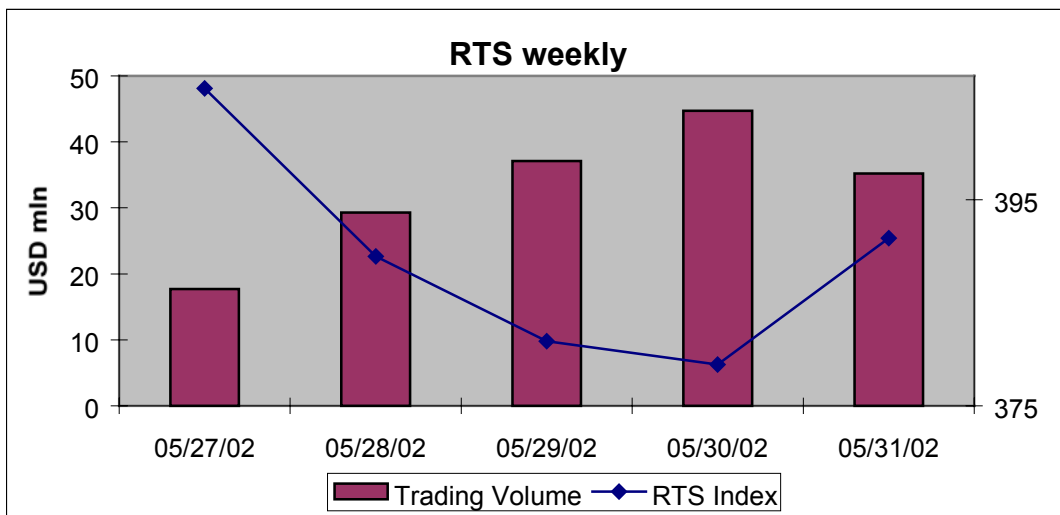
The usual end-of-the-month factors did not have any viable effect on the loan market. Short interbank ruble loan rates fluctuated in the narrow range of 4-4.5 for overnight all week. At the same time balances on banks' correspondent accounts at the CBR remained on high levels during the week, with the lowest level being R85.9 billion.

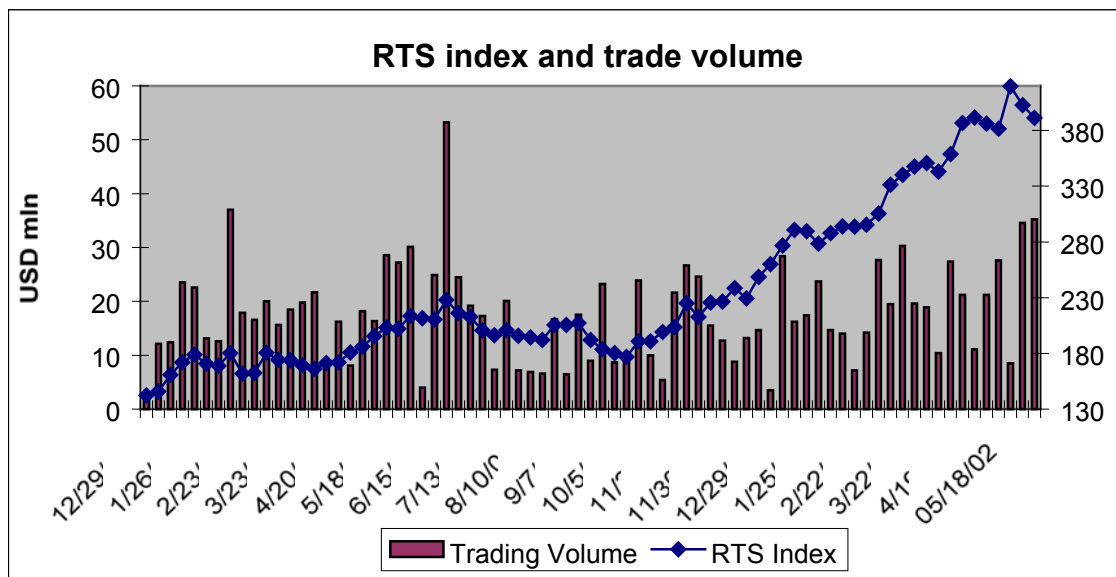
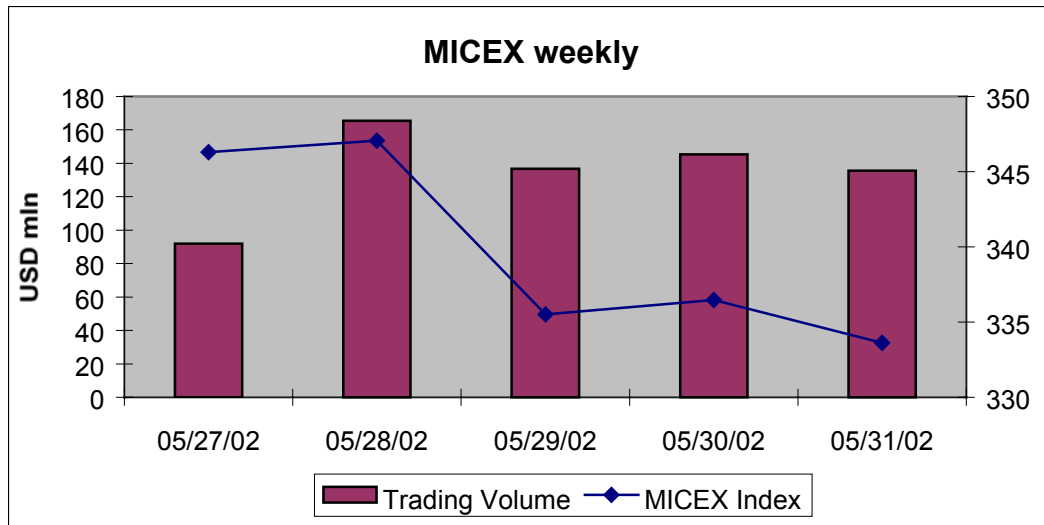




Stock Market

Last week's high volatility in a generally negative trend signaled investor uncertainty about current market valuations. On Monday, the market opened up, however, next day it lost 4.01% on high volume. During the next two days it continued to fall reaching a low of 379 level on Thursday. On Friday, a turnaround occurred and the market increased by 3.23% on a volume of \$35.2 million - higher than average. Rostelecom and Sibneft were the leaders of the rally that day - up by 7.69% and 8.5%. For the week the RTS index fell by 2.70% in dollar terms.

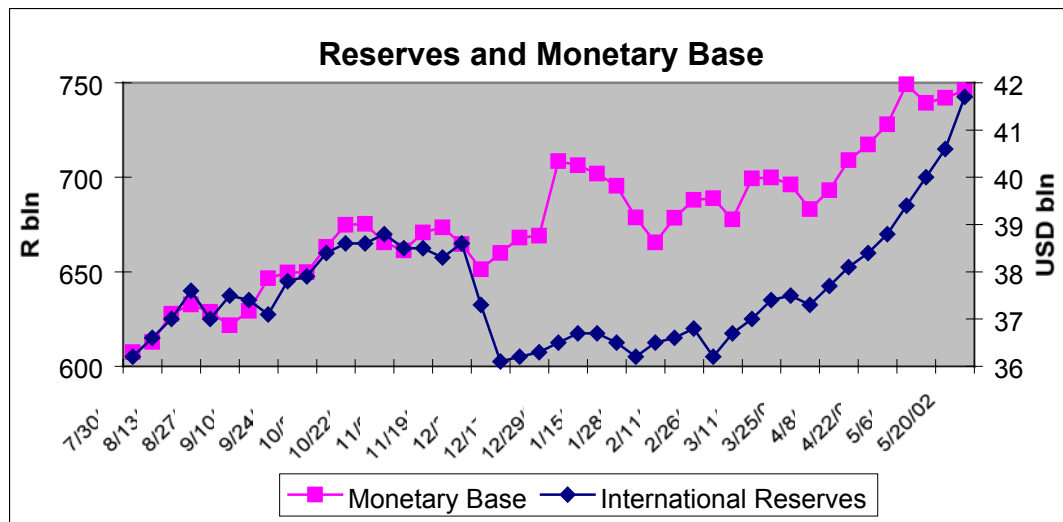




International Reserves and Monetary Base

International reserves were up \$1.1 billion, the highest weekly climb since the middle of 1998. The impressive growth is explained (as usual) by higher world natural resources prices leading to higher export proceed repatriation. Also it can be explained by the sales after the long holidays in the beginning of May.

Monetary base was up again last week and totaled R746.1 billion - R4 billion higher than a week before.



EXPLANATORY NOTES

1. EXCHANGE RATES: SELT - "System of Electronic Lot (currency) trading" -- a computer based OTC-style trading system organized by the Moscow Interbank Currency Exchange (MICEX). MICEX Unified Trading Session (UTS) is the one in which exporters have to sell 50% of the repatriated currency. UTS fix (rounded) becomes the "official" ruble rate for the next day. "\$-tod" price is the price of the dollar with same day delivery. "\$-tom" is the price of the dollar with delivery on the next day. Minimum lot size for each of the dollar instruments is \$100,000. Average price is quoted as the weighted average of all actual deals entered into the system by various banks.

2. INTEREST RATES: Moscow InterBank Actual Credit Rate is calculated as the average-weighted rate on the volume of actual transactions in interbank loans by commercial banks.

3. STOCK INDICES: The RTS index is the only official indicator of the Russian Trading System. It is calculated every 30 minutes of the RTS trade session, starting at 12:00. It comprises 60 shares of 35 leading companies. These shares are included in so-called Category "A" listings. The index indicates over-the-counter stock prices. The index represents the ratio of the total market capitalization of the shares of the companies selected for the index to the total market capitalization of the same shares as of the initial

date multiplied by the index value as of the initial date (31 December 1997) using a base of 100 beginning September 1, 1995. The ruble-adjusted index is a derivative of the main dollar index, using the same base. The MICEX index is calculated by the stock section of the Moscow Interbank Currency Exchange and is based on the price fluctuations of 17 shares of the MICEX's first and second listings.

4. INTERNATIONAL RESERVES OF THE RUSSIAN FEDERATION represent the amount of reserve assets of the Bank of Russia and Finance Ministry. Those reserve assets are comprised of monetary gold, special drawing rights, the reserve position in the IMF and other liquid foreign assets. The latter include short-term deposits in non-resident and resident banks, balances in current accounts, foreign government securities, repo agreements with these securities made with non-residents, and other liquid assets (accrued interest on these assets is not included). Monetary gold is evaluated at a floating rate, revised periodically, but not always reported immediately. Foreign currency assets are converted into U.S. dollars on the basis of the cross rates of foreign currencies to the dollar, calculated using the official rates of the ruble to these foreign currencies, as set by the CBR.

5. MONETARY BASE (M1) is comprised of cash and reserves of commercial banks on deposit in the CBR. It is the basic part of the money supply (M2).

6. LOMBARD CREDITS, distributed through auctions, are aimed to provide liquidity to the banking sector. These credits are extended to banks on the basis of collateral.